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State of Alaska

Judicial Retirement System

Actuarial Valuation

as of June 30, 1994

Prepared by:

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Highlights

This report has been prepared by William M. Mercer, Incorporated to:

1. present the results of a valuation of the State of Alaska Judicial Retirement System as of June 30, 1994;

2. review experience under the Plan for the period July 1, 1992 to June 30, 1994;

3. determine the contribution rate for the System for Fiscal Years 1997 and 1998;

4. provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the Plan during the 1992/93 and 1993/94 plan years, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the Plan provisions, provides information relating to the Plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principal results are as follows:

Funding Status as of June 30:

		1992	1994
a.	Valuation Assets	$ 36,878,167	$ 42,054,807
b.	Accrued Liability	47,270,758	52,018,485
c.	Funding Ratio, (a) / (b)	78.0%	80.8%

Recommended Contribution Rates:

		FY95-FY96	FY97-FY98
a.	Normal Cost Rate	21.63%	22.54%
b.	Past Service Cost Rate	19.55%	16.28%
c.	Total Employer Cost Rate	41.18%	38.82%

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data and financial information provided to us by your office, to determine a sound value for the System's liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code and all applicable regulations.

Respectfully submitted,

Brian R. McGee, FSA
Managing Director

Peter L. Godfrey, FIA
Principal

JWJ/PLG/BRM/jls

October 10, 1995

Analysis of Valuation

Actuarial Method and Assumptions

The actuarial method is the same as that used in the June 30, 1992 valuation. The health inflation and economic assumptions have been changed to more accurately reflect our best estimate of future experience. The health inflation assumption was changed to a decreasing scale, reducing to 5.5% for FY99 and later. This change reduced the health accrued liability.

In concert with the change in the assumed health cost trend assumption, the interest rate and salary scale assumptions were reduced by 100 basis points. These changes increased the accrued liability. The net effect of all changes was a decrease in the funding ratio and an increase in the total contribution rate.

Salary Increases

Salaries for most active judges did not change from June 30, 1992 to June 30, 1994. The following table presents the annual salaries for the different court appointments:

	June 30, 1992	June 30, 1994
District Court	$ 81,888.00	$ 81,888.00
Appellate Court	98,688.00	98,688.00
Superior Court	96,600.00	96,600.00
Supreme Court	104,472.00	105,000.00
Administrative Director	102,468.00	102,468.00

The average annual salary decreased from $93,685 at June 30, 1992 to $93,159 at June 30, 1994, an average annual decrease of 0.3%. Since we assumed an average annual salary increase of 6% in the valuation as of June 30, 1992, an actuarial gain occurred due to salary experience which increased the funding ratio and decreased the total contribution rate.

Investment Performance

The rate of return on investments during fiscal year 1993 was 13.75% and the rate of return during fiscal year 1994 was 0.98%, net of administrative expenses. Our actuarial calculations are based upon the assumption that the System's assets would earn 9% in FY93 and FY94. The average annual rate of return during the two-year period was 7.2% and this resulted in an actuarial loss to the System, decreasing the funding ratio and increasing the contribution rate.

Health Premiums

The blended monthly premium increased from $226.90 for FY93 to $350.50 for FY95, an average annual increase of 24.3%. Since we assumed an annual increase in health premiums of 9% during FY93 and FY94, there resulted an actuarial loss from health premiums.

Membership Statistics

The average age of active participants increased by 0.79 years and the average past service decreased slightly. The average age of vested terminated members increased by 0.26 years and the average age of retirees and survivors decreased by 0.16 years. Average benefits increased for retirees and decreased for terminated vested participants. The changes in active and retired participant averages tended to produce an actuarial gain. The net effect was to increase the funding ratio and decrease the total contribution rate of the system.

Summary

The overall experience during the two-year period resulted in an actuarial gain and an increase in the funding ratio from 78.0% to 80.8%. The total contribution rate decreased from 41.18% to 38.82%. We expect the System will continue to maintain a sound financial position.

Section 1

Valuation Results

This section sets forth the results of the actuarial valuation.

Section 1.1 shows the transactions of the System's fund during FY93 and FY94.

Section 1.2 shows the actuarial present values as of June 30, 1994.

Section 1.3 calculates the actuarial gain or loss for FY93 and FY94.

Section 1.4 develops the total contribution rate.

Section 1.5 provides disclosure information for GASB Statement No. 5.

1.1 Development of Valuation Assets

	FY93	FY94
Net Assets Available for Benefits, Beginning of Year	$ 36,878,167	$ 41,906,073
Additions:		
Employee Contributions	$ 204,778	$ 194,383
Employer Contributions	1,995,173	2,035,139
Net Realized Gains	1,459,888	1,025,205
Net Unrealized Gains	1,295,736	(2,970,381)
Investment Income	2,410,843	2,471,252
	$ 7,366,418	$ 2,755,598
Deductions:		
Retirement Benefits	$ 2,115,331	$ 2,280,409
Medical Benefits	125,893	208,996
Administrative Expenses	97,288	117,459
	$ 2,338,512	$ 2,606,864
Net Assets Available for Benefits, End of Year	$ 41,906,073	$ 42,054,807
Approximate Investment Return Rate During the Year, Net of Administrative Expenses	13.75%	0.98%

1.2 Breakdown of Present Value of Benefits at June 30, 1994

	Normal Cost	Accrued Liability
Active Participants		
Retirement Benefits	$ 899,092	$ 8,887,135
Disability Benefits	34,244	290,489
Death Benefits	182,068	1,618,643
Deferred Benefits	314,844	4,334,585
Health Benefits	55,441	530,033
Subtotal	$ 1,485,689	$ 15,660,885
Retirees and Survivors		
Retired Members' Benefits		$ 29,123,273
Health Benefits		1,289,948
Subtotal		$ 30,413,221
Vested Terminations		
Deferred Retirement Benefits		$ 5,516,889
Health Benefits		427,490
Subtotal		$ 5,944,379
Total		$ 52,018,485

1.3 Development of Actuarial Gain/(Loss) for FY93 and FY94

1.	Unfunded Liability, June 30, 1992	$10,392,591
2.	Normal Cost for FY93	1,326,321
3.	Normal Cost for FY94	1,445,690
4.	Interest on (1), (2) and (3) at 9%	2,334,439
5.	Employee Contributions for FY93 and FY94	399,161
6.	Employer Contributions for FY93 and FY94	4,030,312
7.	Interest on (5) and (6) at 9%	398,653
8.	Change Due to Assumption Changes	1,362,483
9.	Expected Unfunded Liability, June 30, 1994, (1) + (2) + (3) + (4) - (5) - (6) - (7) + (8)	12,033,398
10.	Actual Unfunded Liability, June 30, 1994	9,963,678
11.	Actuarial Gain/(Loss) for the Period, (9) - (10)	$ 2,069,720

1.4 Calculation of Total Contribution Rate

1.	Total Normal Cost	$ 1,485,689
2.	Total Salaries	5,310,036
3.	Total Normal Cost Rate, (1) / (2)	27.98%
4.	Average Employee Contribution Rate	5.44%
5.	Employer Normal Cost Rate, (3) - (4)	22.54%
6.	Accrued Liability	$ 52,018,485
7.	Assets	42,054,807
8.	Total Unfunded Liability, (6) - (7)	9,963,678
9.	Amortization Factor	11.528758
10.	Past Service Payment, (8) / (9)	864,246
11.	Past Service Rate, (10) / (2)	16.28%
12.	Total Employer Contribution Rate, (5) + (11)	38.82%

1.5 Disclosure for G.A.S.B. Statement No. 5

State of Alaska

Judicial Retirement System

Disclosure for G.A.S.B. Statement No. 5

	************************** Pension Benefit Obligation ********************				
	Current	*********** Current Employees *************			
Valuation	Retirees &	Contribs	***** Employer Financed *****		
Date	Terminated	With Int	Vested	Non-Vested	Total
June 30, 1991*	$ 29,897,257	$ 1,154,693	$ 13,530,420	$ 1,043,842	$ 45,626,212
June 30, 1992	$ 31,911,329	$ 1,694,938	$ 12,647,003	$ 1,017,488	$ 47,270,758
June 30, 1993*	$ 32,512,316	$ 1,995,369	$ 15,155,145	$ 1,219,275	$ 50,882,105
June 30, 1994	$ 36,357,600	$ 2,270,333	$ 11,977,430	$ 1,413,122	$ 52,018,485

	*********** Valuation Assets **********			********** Market Value Assets **********		
Valuation Date	Net Assets Available For Benefits	Unfunded PBO	Assets as Percent of PBO	Net Assets Available For Benefits	Unfunded PBO	Assets as Percent of PBO
June 30, 1991*	$ 31,968,055	$ 13,658,157	70%	$ 31,968,055	$ 13,658,157	70%
June 30, 1992	$ 36,878,167	$ 10,392,591	78%	$ 36,878,167	$ 10,392,591	78%
June 30, 1993*	$ 41,906,073	$ 8,976,032	82%	$ 41,906,073	$ 8,976,032	82%
June 30, 1994	$ 42,054,807	$ 9,963,678	81%	$ 42,054,807	$ 9,963,678	81%

* Based on an actuarial update.

Section 2

Basis of Valuation

In this section, the basis of the valuation is presented and described. This information -- the provisions of the System and the census of participants -- is the foundation of the valuation, since these are the present facts upon which benefit payments will depend.

A summary of the System's provisions is provided in Section 2.1 and participant census information is shown in Section 2.2 to Section 2.4.

The valuation is based upon the premise that the Plan will continue in existence, so that future events must also be considered. These future events are assumed to occur in accordance with the actuarial assumptions and concern such events as the earnings of the fund, the number of participants who will retire, die, terminate their services, their ages at such termination and their expected benefits.

The actuarial assumptions and the actuarial cost method, or funding method, which have been adopted to guide the sponsor in funding the System in a reasonable and acceptable manner, are described in Section 2.5.

2.1 Summary of Plan Provisions

1. Effective Date

May 4, 1963, with amendments through June 30, 1994.

2. Administration of Plan

The Commissioner of Administration is responsible for administering the Judicial Retirement System (JRS). The Alaska State Pension Investment Board is responsible for managing and investing the fund (Ch 31, SLA 1992).

3. Employees Included

JRS membership is mandatory for all Supreme Court justices and Superior, District and Appellate Court judges. The administrative director of the Court System may elect to participate in either the JRS or the Public Employees' Retirement System (PERS).

4. Credited Service

Members receive credit for each day of JRS employment. Earlier service as a magistrate or deputy magistrate before July 1, 1967 is covered under the JRS.

5. Employee Contributions

Employees hired after July 1, 1978, are required to contribute 7% of their base annual salaries. Contributions are required for a maximum of 15 years. Employees hired before July 1, 1978 are not required to contribute.

<u>Interest Credited</u>: 4.5% compounded semiannually on June 30 and December 31.

<u>Refund of Contributions</u>: Nonvested employees may receive a refund of their contributions and interest earned if they terminate employment. Refunded contributions, plus 7% indebtedness interest, must be repaid within one year of JRS reemployment.

JRS contributions for terminated members may be attached to satisfy claims under Alaska Statute 09.38.065 or federal tax levies. Contributions that are attached to satisfy claims or tax levies may be reinstated at any time. The member is not required to return to JRS employment.

2.1 Summary of Plan Provisions (continued)

6. Retirement Eligibility and Benefits

Normal Retirement: Members are eligible for normal retirement at age 60 if they have at least five years of JRS service. Terminated, vested members may defer retirement and begin receiving benefits when they reach age 60.

Early Retirement: Members are eligible for early retirement at any age if they have at least 20 years of service. Terminated, vested members may defer retirement and begin receiving benefits when they reach age 55. Under early retirement, members receive reduced benefits equal to the actuarial equivalent of their normal retirement benefits. Early benefits are based on the member's service and early retirement date.

Type of Benefit: Lifetime monthly benefits are paid to the member. Upon the member's death, a survivor's benefit (below) may be payable if the member has an eligible spouse or dependent children.

Computation of Normal Retirement Benefit: 5% of authorized monthly base salary for each year of JRS service up to a maximum of 15 years. JRS benefits are recalculated when the salary for the office held changes. The maximum JRS benefit payable to a member is 75% of the authorized salary.

7. Survivor's Benefits

Survivor's benefits are payable to the spouse of a member if they have been married for at least one year immediately preceding the member's death and the member has at least two years of JRS service. The monthly survivor's benefit is equal to:

(a) one-half of the monthly benefit that the member would have received if retired at the time of death; or

(b) 30% of the authorized monthly base salary if the member was not eligible to retire, or was entitled to less than 60% of the authorized monthly base salary.

If there is no eligible surviving spouse, the member's dependent children receive, in equal shares, 50% of the benefit under (a) or (b).

When there is both an eligible surviving spouse and dependent children residing in separate households, the spouse and children share equally the benefit under (a) or (b).

If there is no surviving spouse or dependent children, the members' contribution account balance, including interest earned, will be paid to the designated beneficiary.

2.1 Summary of Plan Provisions (continued)

8. Disability Benefits

Members are eligible to receive monthly disability benefits at any age if they become incapacitated and they have at least two years of JRS service. Disability benefits are calculated the same as normal retirement benefits. See (6) *Retirement Benefits and Eligibility*.

9. Medical Benefits

Medical benefits are provided at no cost to JRS members, their spouses and dependents while monthly retirement, disability and survivor benefits are being paid.

2.2 Changes in System Participation From June 30, 1992 to June 30, 1994

Active Participants

Total, June 30, 1992	53
New Entrants	8
Returned From Non-Vested Status	0
Returned From Vested Status	0
Non-Vested Terminations	0
Vested Terminations	0
Retirements	(4)
Deaths	0
Total, June 30, 1994	57

Vested Terminations

Total, June 30, 1992	17
New Vested Terminations	0
Retirements	(4)
Returned to Active Status	0
Omitted from Previous Valuation	0
Deaths	0
Total, June 30, 1994	13

Retirees, Survivors and QDRO's

Total, June 30, 1992	43
New Retirements	8
New Survivors	2
QDRO Adjustments	(2)
Deaths	(3)
Total, June 30, 1994	48

2.3 Miscellaneous Information as of June 30

	1986	1988	1990	1992	1994
Active Members					
1. Number	54	53	52	53	57
2. Average Age	46.51	47.99	48.64	49.27	50.06
3. Average Service	8.01	8.94	9.52	9.43	9.42
4. Average Annual Base Pay	$ 75,245	$ 75,404	$ 74,880	$ 93,685	$ 93,159
Vested Terminated Members					
1. Number	9	9	12	17	13
2. Average Age	47.58	47.98	48.18	49.59	49.85
3. Average Service	7.91	6.72	8.05	8.62	7.41
4. Average Monthly Benefit	$ 2,137	$ 2,001	$ 2,446	$ 3,107	$ 2,738
Retirees, Beneficiaries and QDRO's					
1. Number	30	34	39	43	48
2. Average Age	67.11	67.53	68.21	69.13	68.97
3. Average Monthly Benefit	$ 3,173	$ 3,154	$ 2,964	$ 3,888	$ 3,993

2.4 Distributions of Active Participants

Annual Earnings By Age

Age Groups	Number of People	Total Earnings	Average Earnings
0-19	0	$ 0	$ 0
20-24	0	0	0
25-29	0	0	0
30-34	0	0	0
35-39	1	81,888	81,888
40-44	13	1,182,240	90,942
45-49	17	1,557,420	91,613
50-54	13	1,259,004	96,846
55-59	9	841,008	93,445
60-64	3	283,476	94,492
65-69	1	105,000	105,000
70-74	0	0	0
75-79	0	0	0
80+	0	0	0
Total	57	$ 5,310,036	$ 93,159

Annual Earnings By Service

Years of Service	Number of People	Total Earnings	Average Earnings
0	3	$ 282,960	$ 94,320
1	5	440,268	88,054
2	1	81,888	81,888
3	8	730,752	91,344
4	3	275,088	91,696
0- 4	20	1,810,956	90,548
5- 9	12	1,115,064	92,922
10-14	14	1,304,028	93,145
15-19	8	790,632	98,829
20-24	1	102,468	102,468
25-29	1	81,888	81,888
30-34	1	105,000	105,000
35-39	0	0	0
40+	0	0	0
Total	57	$ 5,310,036	$ 93,159

Years of Service By Age

	Years of Service									
Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
0-19	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0	0
35-39	1	0	0	0	0	0	0	0	0	1
40-44	4	7	1	1	0	0	0	0	0	13
45-49	8	4	4	1	0	0	0	0	0	17
50-54	6	1	3	2	1	0	0	0	0	13
55-59	1	0	3	4	0	1	0	0	0	9
60-64	0	0	3	0	0	0	0	0	0	3
65-69	0	0	0	0	0	0	1	0	0	1
70-74	0	0	0	0	0	0	0	0	0	0
75-79	0	0	0	0	0	0	0	0	0	0
80+	0	0	0	0	0	0	0	0	0	0
Total	20	12	14	8	1	1	1	0	0	57

2.5 Actuarial Basis

Valuation of Liabilities

A. **Actuarial Method -** Projected Unit Credit. Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued benefit liability is amortized over 25 years. Actuarial funding surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An <u>Accrued Liability</u> is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The <u>Unfunded Liability</u> at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the <u>Past Service Cost</u>.

The <u>Normal Cost</u> is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

B. **Actuarial Assumptions -**

1.	Interest	8% per year, compounded annually, net of expenses.
2.	Mortality	1984 Unisex Pension Mortality Table.
3.	Salary Scale	5% per year, compounded annually.

2.5 Actuarial Basis (continued)

4.	Health Cost Trend	FY95 - 9.5% FY96 - 8.5% FY97 - 7.5% FY98 - 6.5% FY99 & later - 5.5%
5.	Turnover and Early Retirement	Annual turnover and early retirement at each age and service is the <u>greatest</u> of the following amounts: a. 0% b. 3% if service is greater than 15 years. c. 6% if vested <u>and</u> immediately eligible for full benefits based on retirement provision. d. 10% if vested <u>and</u> age is greater than 64.
6.	Disability	In accordance with Table 1.
7.	Maximum Retirement Age	Age 70.

Valuation of Assets

Based upon asset data as furnished by the Division of Retirement and Benefits.

Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY96, the pre-65 monthly premium is $458.17 and the post-65 premium is $174.54, based on an assumed total blended premium of $350.50. For FY96, the actual blended premium is $350.50. The FY96 blended premium was provided by the State of Alaska Division of Retirement and Benefits.

Table 1

State of Alaska

Judicial Retirement System

Disability Rates

Annual Rates Per 1,000 Employees

Age	Rate	Age	Rate
20	.17	45	.41
21	.17	46	.44
22	.18	47	.48
23	.18	48	.52
24	.18	49	.56
25	.19	50	.60
26	.19	51	.65
27	.19	52	.72
28	.20	53	.80
29	.20	54	.89
30	.21	55	1.00
31	.21	56	1.15
32	.22	57	1.34
33	.22	58	1.53
34	.23	59	1.80
35	.24	60	2.11
36	.25	61	2.44
37	.26	62	2.83
38	.27	63	3.26
39	.28	64	3.73
40	.29		
41	.30		
42	.32		
43	.34		
44	.37		

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